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May 15, 2007

**AGENDA ITEM 6**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Blue Shield of California's HMO High Performance Physician Network for 2008
- II. PROGRAM:** Health Benefits
- III. STAFF RECOMMENDATION:** Staff recommends that the Board approve Blue Shield of California's proposal to offer a High Performance Physician Network option in 17 counties effective January 1, 2008 to operate side-by-side with the current network offering.

**IV. INTRODUCTION:**

While the implementation of the Blue Shield CalPERS Provider Network in 2005 eliminated certain hospitals from the network, wide variation in physician practice patterns continues to result in significant variation in relative efficiency for providers remaining in the Blue Shield CalPERS Provider Network. This variation in physician practice patterns and new capabilities for designing alternative networks create an opportunity for Blue Shield of California (Blue Shield) and CalPERS to further differentiate providers and achieve a cost savings through the use of a high performance physician network. Such a high performance physician network will continue to ensure the quality of care in the existing provider network, provide greater transparency regarding cost variation, encourage members to use more efficient providers, and ultimately offer CalPERS members a lower cost Blue Shield HMO plan option. This network design incorporates changes to the physician network only and not the hospital network.

**V. BACKGROUND:**

As a next generation of the current Blue Shield CalPERS Physician Network, Blue Shield proposes an additional network that will encourage the use of more efficient providers while maintaining quality of care. Physician groups influence not only what care is delivered, but also where it is delivered. Creating a High Performance Network (HPN) that consists of physician groups that have demonstrated the ability to render more efficient, quality healthcare will provide an opportunity for substantial savings.

## VI. ANALYSIS:

Blue Shield's analysis revealed that a side-by-side High Performance Network (HPN) model is the only option that meets the key criteria for success:

- Provides higher efficiency providers and premium savings
- Maintains access and quality of care
- Influences member selection
- Has a reasonable chance of receiving regulatory approval
- Gains provider acceptance

This model provides members the choice (completely voluntary) between an HPN and an Extended network plan<sup>1</sup> for both Basic and Medicare. Members who choose the HPN will have lower monthly premiums. There would be no forced disruption of care for members, and timely regulatory approval is likely. This model also provides an increased incentive for members to use more efficient physicians.

In the modeling of the proposed HPN, Blue Shield incorporated an approach centered on quality of care, access to care and reduced premium levels for as many members as possible.

### Quality of Care

Blue Shield uses nationally-recognized quality metrics to ensure that IPAs identified for inclusion in the HPN do not have pervasive quality of care issues. These evidenced-based measures rely on existing Health Plan Employer Data and Information Set (HEDIS) measures approved by the National Committee for Quality Assurance (NCQA).

In developing its quality model, Blue Shield leveraged its current quality improvement and incentive programs. Blue Shield also fully vetted its measures with, and gained support from, the medical community. These measures reflect the full spectrum of quality:

- Evidence-based clinical measures
- Patient satisfaction measures
- Appeals, grievances, and complaints

Blue Shield will exclude a provider group from the network if it fails to meet threshold levels in each of the three quality measures. Blue Shield will identify and provide improvement plans, to those provider groups who are not meeting two out of the three quality measures.

### Network Selection

There are 17 counties included in the proposed HPN service area<sup>2</sup>. The map in

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<sup>1</sup> The Extended HMO network plan will be the current CalPERS Blue Shield HMO network plan and does not include any narrowing of the physician network.

<sup>2</sup> Note that at this time, Blue Shield is limited from further increasing the HPN coverage area due to current contractual constraints with providers, limited network options in direct contract (DC)

Attachment 1 identifies the geographic distribution of the HPN HMO Counties, the Partial HPN HMO Counties (those counties where less than 75 percent of CalPERS members would have access to the proposed HPN network) and those counties where only the Extended HMO network plan will be available.

The HPN delivers a network that is smaller, but offers a significantly lower premium while maintaining current quality and access to care standards. It also provides for full transparency between more efficient and less efficient IPA/Medical Groups.

The HPN includes 81 IPAs, or 37 percent of the 221 IPAs in the current network. This represents 50 percent of the available Primary Care Physicians and 49 percent of Specialists and OB/GYN physicians.

The HPN network provides a platform where 52 percent of CalPERS' Blue Shield members (202,000) could choose the HPN. Approximately 32 percent of CalPERS' Blue Shield members (125,000) are already seeking care from physicians that will be part of the HPN. An additional 20 percent of CalPERS' Blue Shield members (77,000) will have access to the HPN. Blue Shield will target this population for migration to these more efficient providers.

To ensure sufficient physician capacity, Blue Shield performed a detailed analysis, contacting each of the HPN provider groups. Blue Shield determined that in most HPN counties, provider groups have sufficient capacity to handle 100% of the CalPERS' Blue Shield member migration. The one exception is the Greater Sacramento area, with the physician groups able to handle 80% of member migration (far greater than the maximum projected range of 40% member migration). Thus, Blue Shield is confident the HPN has sufficient capacity to address member migration.

#### Premium Impact

An analysis of projected premiums for members choosing the proposed HPN reveals an across the board premium reduction for both state employees and public agency employees. Premiums for members that choose the Extended (current) network will increase due to the utilization of less efficient providers.

Under the HPN, composite premiums for members in the HPN Basic and Medicare plans will decrease 6 to 8 percent from the status quo premium.

Members remaining in the Extended network Basic and Medicare plans will see an increase in premiums of 3 to 5 percent from the status quo. The resulting difference between the two premiums (10 to 14 percent) will provide an incentive for members to choose the more efficient network and gain the premium savings. The table in Attachment 2 illustrates the projected change in premiums, as well

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and exclusive provider organization (EPO) counties, and limited provider options in rural areas of some counties.

as the variance between the HPN and the Extended network choices.

Blue Shield will develop customized plans to maximize member migration. Attachment 3 illustrates the cost savings impact for each 5 percent of the 77,000 members that switch to the HPN. Overall savings could range from \$2 million to \$17 million in 2008.

**VII. STAFF RECOMMENDATION:**

Because a High Performance Physician Network will continue to ensure quality of care in the existing provider network, provide greater transparency regarding cost variation, encourage members to use more efficient providers, and ultimately offer CalPERS members a lower cost option, CalPERS staff supports Blue Shield's proposal to implement this new network option.

Staff recommends that the Board approve Blue Shield of California's proposal to offer a High Performance Physician Network option in 17 counties effective January 1, 2008 to operate side-by-side with the current network offering.

**VIII. STRATEGIC GOAL:**

This item supports Goal X of the strategic plan which states, "Develop and administer quality, sustainable health benefits programs that are responsive to and valued by enrollees and employers."

**IX. RESULTS/COSTS:**

The CalPERS costs associated with this item are included in the annual budget of the Office of Health Plan Administration.

Staff and Paul Markovich, Senior Vice President, Large Group Business Unit, Blue Shield of California are available to respond to any questions. Attachment 2 is the detailed presentation given by Paul Markovich at the April 17, 2007 Health Benefits Committee meeting.

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Attachments